

MANITOBA 2002

> BUDGET SPEECH



MEETING TODAY'S CHALLENGES.
BUILDING FOR THE FUTURE.



THE HONOURABLE
GREGORY F. SELINGER
MINISTER OF FINANCE





The 2002 Manitoba Budget Address

The Honourable Gregory F. Selinger

Minister of Finance

April 22, 2002

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THE 2002 MANITOBA BUDGET ADDRESS

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MEETING TODAY'S CHALLENGES BUILDING FOR THE FUTURE

Mr. Speaker, it is my honour to present the 2002 Manitoba Budget, a Budget that meets today's challenges while building for the future.

This Budget is balanced. This Budget focusses on the priorities of Manitobans in health, education and children's programs. This Budget fulfills our Government's long-term plan to pay down debt and reduce taxes.

Above all, this Budget maintains the conditions for future growth in Manitoba in the face of a unique set of challenges.

As we all know, this past year has been one of international upheaval and budgetary uncertainty. A global economic slowdown, which began in early 2001, was further intensified by the tragic events of September 11. Although Manitoba's economy proved more resilient than most, growth and revenue dropped sharply across several sectors.

In late January, our circumstances were complicated further by the disclosure of a federal accounting error dating back 30 years. Federal officials announced that, due to their error, Manitoba received \$408 million in income tax overpayments between 1993 and 1999. The impact of this error is still being felt for the 2000, 2001 and 2002 tax years.

On the other hand, Manitobans have tremendous confidence for the future. Our housing market is

strong, and our economy is growing faster than many other provinces.

In this Budget, we take steps to bring stability and predictability to an uncertain fiscal environment. Until revenue rebounds and the full effects of the federal error are absorbed, this Budget will act as a stabilizer, bridging between the current uncertainty and the positive future forecasters predict for Manitoba.



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To meet the challenges of maintaining stability and predictability, our Government faced many difficult choices.

They have been made in a spirit of fairness.

Overall, spending increases in this Budget total 2.5 percent. Most departmental budgets are reduced from last year's levels. In priority areas, Government is finding better, more cost-effective ways to manage resources.

Government debt costs are a further \$20 million lower than last year's actuals. Across Government, our vacancy rate target is six percent.

We continue to provide needed support for health, education and programs for children and families. In today's Budget, you will not find broad-based program cuts, increases in major taxes, delays in promised tax relief or the cancellation of debt retirement allocations.

Our Government is committed to building Manitoba's affordability advantage. Over three years, we have maintained a 10 percent reduction in post-secondary tuition fees, and implemented a plan for reductions in personal and business taxes.

We see an increase in post-secondary enrolment that bodes well for the future, as well as an economy that has demonstrated resilience in the face of a global slowdown.

This Budget will keep us on track for stable economic growth:

- our unemployment rate remains the second-lowest in the country;
- downtown Winnipeg is undergoing a major revitalization;
- there is strong momentum toward continued economic diversification in rural Manitoba; and
- there are new investments in the North.

Manitobans can take pride in their accomplishments. I would like to express my sincere thanks for their counsel, vision and support. Together, we are meeting today's challenges while building for the future.

Government of Manitoba's Support for Public Education

2001/02

| | Total Expenditure on Public Education | Provincial Contribution | Provincial Contribution |
|--|--|------------------------------------|------------------------------------|
| | (Millions of Dollars) | | (%) |
| Operating fund | 1,303.1 | 771.8 | 59.2 |
| Capital (principal and interest) | 75.7 | 75.7 | 100.0 |
| Education Property Tax Credit | n/a | 173.6 | 100.0 |
| Pensioners' School Tax Assistance | n/a | 3.8 | 100.0 |
| Employers' share of teachers' pensions | 82.6 | 82.6 | 100.0 |
| Total Expenditures | 1,461.4 | 1,107.5 | 75.8 |

INVESTING IN MANITOBA'S FUTURE

We firmly believe that we cannot have an effective economic strategy without a strong education strategy. Jurisdictions that invest in education will be the ones to succeed in this new century.

Manitoba will continue to evolve into a learning society. Even in difficult times, our commitment to public schools and post-secondary education is strong.

We are honouring our pledge to fund Manitoba schools at the rate of economic growth. Total support for public education now exceeds \$1 billion.

Today, more resources are being channelled into the classroom for the benefit of Manitoba's young people, and our province's collective future.

We are reducing administrative costs at the public school level – decreasing by one-third the number of school divisions in the province. As well, we have made the school funding formula simpler and more equitable.

This Budget continues to address the infrastructure deficit at our public schools and post-secondary institutions that accumulated during the 1990s. Our public schools are benefiting from major new investments in buildings and repairs. There are new construction projects on virtually every campus as our colleges and universities rebuild with over \$100 million in Provincial investments and \$97 million in matching private sector investment.

Our goal is to put a college or university education within reach of every young person who meets the entrance requirement.

Results to date have been impressive. Over the last two years, enrolments have increased by almost 12 percent at colleges and universities.

I am pleased to announce today that we will continue to build on this success. General tuition fees for Manitoba students will remain 10 percent lower than they were in 1999. In addition, we are enhancing support to post-secondary education through:

- increasing operating grants to universities and colleges;
- providing more college spaces through the College Expansion Initiative; and
- providing almost \$16 million in bursary, scholarship and study grants.

Other changes to post-secondary education support we are making are based on input from students, parents and educators – including the end of the Learning Tax Credit. This change is offset by improvements we made in non-refundable tax credits and bursaries in 2000 and extra tax credit support in the 2001 federal budget.

In short, investing in Manitoba minds to benefit the future of all Manitobans remains a top priority of this Government.

HEALTH CARE: CHALLENGES, ACHIEVEMENTS AND CHOICES

Since we came to office in 1999, Manitobans have given us a clear and consistent message on health care. They know change and innovation are necessary. Manitobans also demand a system that delivers health care based on medical need, not ability to pay. This was evident during the Health Choices consultation undertaken by my colleague, the Minister of Health.

There are tremendous budgetary pressures caused by increasing service requirements, rising cost of services, increased demand for new technologies and a significantly reduced level of funding for health care by the federal government.

For example, health care now represents over 39 percent of our overall Budget. Ottawa's share of health care funding has fallen to 14 percent – a far cry from the principle of the original 50/50 Medicare partnership. As well, the federal promise of a national drug program has not materialized.

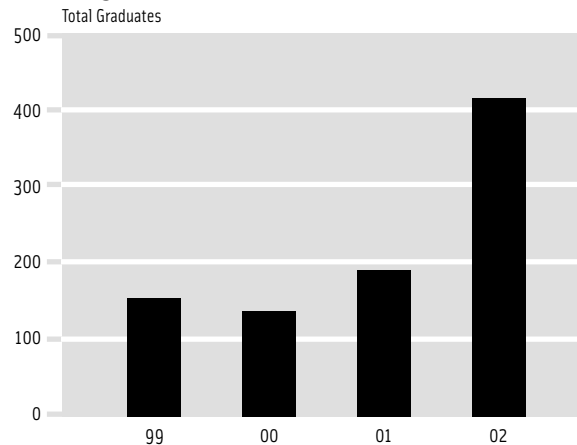
Manitobans also demand a system that delivers health care based on medical need, not ability to pay.

Balancing Manitobans' needs with these national pressures is one of our greatest challenges.

Mr. Speaker, while we are reinforcing support for health care in Budget 2002 with an increase in funding to a total of \$2.8 billion, we continue to find ways to deliver services even more cost-effectively and efficiently.

We are developing innovative approaches to reducing costs within the non-profit health system, as seen in the conversion of the Pan Am Clinic into a non-profit facility. This approach is now being examined as a model for innovation across Canada.

Nursing Graduates



Source: Manitoba Health

New Telehealth video technology is up and running at 18 sites across the province, bringing medical specialists closer to home for thousands of Manitobans in a cost-effective way. This means a child in Thompson will be able to see a specialist in Winnipeg without leaving the support of family and community.

We previously cut administrative costs by amalgamating the Winnipeg health authorities. We are

seeking greater efficiency and co-operation through further health authority amalgamations and other administrative savings.

We have invested wisely in preventive measures such as flu vaccinations and children's asthma education, significantly reducing emergency room admissions.

We are also directing more of our resources to patient care by fostering greater institutional and regional co-operation. In addition, we will initiate new partnerships with other provinces to deliver specialized services on a regional basis.

New Telehealth video technology is up and running at 18 sites across the province, bringing medical specialists closer to home for thousands of Manitobans in a cost-effective way.

At the same time, our investment in a stronger health system provides significant resources for the training and retention of health professionals. People are the heart of health care. In fact, 70 percent of health care costs are wages.

Thanks to the re-introduction of the diploma nursing program and a strong university degree program, more than 400 nursing graduates will enter the workforce this year. We have recently negotiated a new contract

with nurses to ensure they are paid a fair and competitive wage.

As well, in partnership with nurses and health authorities, we are improving working conditions and creating more full-time opportunities for nurses.

A new student grant system is already providing support for over 150 future doctors committed to staying in Manitoba. We have introduced the Family Doctor Connection, linking more Manitobans to doctors. It has received over 9,000 calls since its launch in January. Ninety-eight more medical specialists have been successfully recruited to our province since we took office.

We have invested over \$300 million in capital upgrades for smarter, more cost-effective health care. At the Brandon Regional Health Centre, we are modernizing to provide for more day surgeries and outpatient services, meaning fewer costly hospital stays. In Gimli, at the Johnson Memorial Hospital, new investment will help deliver a broader community-based approach to health delivery through adult day programming and a community resource centre.

We have invested \$73 million for needed equipment and expanded hours of operation. In addition to equipment like MRIs, we are investing in leading-edge technology – like the gamma knife – which will make us the regional centre of excellence for this new, less-intrusive neurosurgical procedure.

Public, non-profit health care is an important competitive advantage for our businesses. Last year,

the cost of employee health care for small business in the United States was forecast to jump 15 to 20 percent – that’s on top of annual 10 to 12 percent increases over the previous three years, according to the U.S. National Federation of Independent Business.

Some of the initiatives supported by this year’s health care budget include:

- starting the largest health capital project in Manitoba history at the Health Sciences Centre – expanding, modernizing, and providing new health technology;
- boosting support for CancerCare Manitoba;
- expanding and upgrading the obstetrical unit in The Pas with a \$500,000 investment;
- making better use of rural and northern surgical capacity to reduce surgical wait times for elective procedures;
- introducing new community mental health measures;
- launching a \$5.5 million overhaul of emergency and cancer care services at Victoria General Hospital; and
- establishing new ultrasound services outside hospitals.

Budget 2002 also adds resources for health authorities, community health services, home care, emergency response and transportation, as well as long-term and acute-care services.

One of the greatest pressures we face is in the area of drug costs. Over the past five years, the Provincial Pharmacare budget has almost doubled. This year

alone, Pharmacare costs increase 26 percent to \$136 million. Unfortunately, the federal commitment to a national Pharmacare program is still unfulfilled and provinces can no longer do all the heavy lifting.

To help offset these costs, Pharmacare deductibles will increase by five percent. For the majority of beneficiaries, this will mean an increase in their deductible – between \$1 and \$5 per month. We will continue to work with other provinces on strategies to contain drug costs, such as a common formulary review process. We will also continue to press the federal government to live up to its responsibilities in supporting Medicare.

We are investing in leading-edge technology – like the gamma knife – which will make us the regional centre of excellence for this new, less-intrusive neurosurgical procedure.

Like other Western Provinces, we are raising tobacco taxes. A World Bank report states that, in the U.S., a 10 percent increase in price yields a six percent decrease in consumption for those in the 18 to 24 age group. And a new U.S. Center for Disease Control study shows each pack of cigarettes sold costs the economy more than \$11 Cdn. in health costs and lost productivity.

Effective midnight tonight, the tobacco tax rate will increase from 9.6 cents to 14.5 cents per cigarette. The added resources will help offset the costs of the recent nurses' settlement and growth in medical expenses.

Budget 2002 recognizes that a strong health care system is dependent on innovation and co-operation. Building on success in these areas to deliver quality care will continue to be our priority.

STRENGTHENING FAMILIES

Healthy families and safe communities help build Manitoba's future.

Children supported at an early age do better in school, earn higher incomes later on, and are less likely to become involved in the justice system or rely on costly social services.

New investments in child care and in Healthy Child Manitoba throughout our mandate demonstrate our strong commitment to early childhood development. In the coming year, we will build on these investments by introducing a multi-year child-care plan that focusses on providing affordable, accessible quality care for children. In addition, we are continuing our investment in Healthy Child Manitoba by fully implementing the Healthy Baby program. Healthy Baby, the first program of its kind in Canada, is being copied in other jurisdictions.

Our very successful Parent Child Centre program currently involves 26 coalitions that are fostering support for early child initiatives throughout the province.

We will be piloting a new "Healthy Schools" program that will better link public health services with local schools, and we will continue to enhance important programs to prevent Fetal Alcohol Syndrome and Fetal Alcohol Effect.

Investments in Healthy Child now total \$22 million. This is in addition to \$16 million we have invested in child care since we took office. Total investment for early child development over our mandate has increased almost \$40 million, which has been supported financially through a partnership with the federal government.

In addition, we have phased out the clawback of the National Child Benefit (NCB) for all families on assistance with children aged six and under. Today's Budget further reduces the NCB clawback: effective January 2003, all lower-income families with children under 12 will receive benefits.

Total investment for early child development over our mandate has increased almost \$40 million.

Budget 2002 provides more support for the Aboriginal Child Welfare Initiative, bringing our total funding to \$2.8 million. We will also be creating a separate office to serve as a focal point for disability related issues.

These supports will help us meet today's challenges, build for the future and strengthen Manitoba's families.

BUILDING SAFE, SECURE COMMUNITIES

When we first took office in 1999, many older urban neighbourhoods were in serious decline. Working with families, communities and other levels of government, we created programs like Neighbourhoods Alive! and the Winnipeg Housing and Homelessness Initiative (WHHI). The WHHI, for example, has contributed to the repair, rehabilitation or redevelopment of over 600 units in Winnipeg's inner city.

Today – for the first time in a decade – property values are beginning to rise in many of these neighbourhoods.

This Budget supports programs that aid community revitalization and prevent older neighbourhoods from deteriorating.

We are also targeting crime with increased policing to counter street gangs, organized crime, auto and property theft, and impaired driving. To keep kids out of gangs and off the streets, Budget 2002 also lends support for Lighthouses, offering youth safe, positive ways to spend free time.

We are expanding the number of offences covered under the Victims' Bill of Rights. New resources are being allocated for implementation of the Safer Communities and Neighbourhoods Act to deal with the disruption caused by booze cans, drug dens and prostitution in residential neighbourhoods.

Reducing crime is one important way to improve community safety – reducing workplace accidents is another way to keep Manitobans safe.

We recently received the Workplace Safety and Health Review Report, which is based on public consultations. We will move forward with measures aimed at implementing the recommendations to improve safety and reduce worker injuries.

We have already made significant progress.

- We added eight workplace health and safety inspectors – including one dedicated to the North.
- We dedicated a full-time Crown prosecutor for workplace safety violations.

Safer workplaces mean fewer injuries, increased job security, lower compensation costs for employers, and improved productivity.

We are also committed to ensuring safer communities by supporting safer drinking water in our province.

Today I am pleased to announce further support for drinking water quality initiatives. This means more resources dedicated to drinking water quality, better monitoring of test results, and new investments in drinking water systems for northern communities.

THE MANITOBA ECONOMY: STRENGTH IN DIVERSITY

Advances in health care, education and community development improve Manitobans' quality of life. So does a growing economy. Our ability to weather the recent turbulence is testament to the strength and diversity of our economy.

In this period of economic recovery, we will continue to make choices that are affordable and sustainable. There is ample proof that our approach is working, underlined by:

- Manitoba outperforming the country with 1.6% real growth in 2001 ;
- the second-lowest unemployment rate in the country;
- a historically high level of labour force participation – second-highest in Canada;
- a seven percent increase in commodity exports to the U.S.;
- a 17 percent increase in farm cash receipts compared to less than 10 percent for Canada as a whole;
- positive growth in manufacturing shipments at a time of slow or negative growth by our major trading partners; and
- an increase of 15 percent in housing starts, double that of Canada as a whole.

According to our survey of seven independent forecasters, Manitoba will again outperform most other provinces in 2002, with economic growth of two percent.

Manitobans continue to be confident in their futures, and are in a good position to take advantage of the economic recovery. TD Economics indicates Manitoba will be one of only three provinces to see an increase in real personal disposable income this year.

Canada Mortgage and Housing Corporation expects sales of existing homes will continue to rise, increasing 1.4 percent even as national sales are projected to decline.

According to our survey of seven independent forecasters, Manitoba will again outperform most other provinces in 2002.

Our optimism, however, is tempered by the need to address the federal accounting error and the uncertainty hanging over the global economy. Now, more than ever, investments in our economy must be focussed and strategic.

The Premier's Economic Advisory Council brings business, labour, Aboriginal and community leaders together to assist government in further developing strategies for the future.

As we have demonstrated, strong support will be there for education, health and community development. We are also fostering economic growth by:

- attracting more skilled workers to Manitoba through expanded immigration programs;
- helping businesses grow through research, innovation and capital investment;
- tapping Manitoba's potential for new hydro development; and

- renewing and enhancing infrastructure management, including the province's water resources.

Immigration

Increased immigration is necessary to meet today's challenges and build for a successful future. Manitoba is poised for stronger growth, thanks in part to the Provincial Nominee program, which brings high-demand skilled workers to Manitoba to help business compete in today's economy.

This past year, in partnership with the federal government, the program has grown to include 1,000 nominees and their families – a five-fold increase from when the program was initially introduced. Of the nominees surveyed, 90 percent said they are committed to continue living and working here in the province.

Budget 2002 allocates \$6.2 million for the Manitoba Immigrant Integration program to ensure a successful transition to life here in Manitoba. We are committed to strengthening our pool of skilled labour through education and immigration, and by working in partnership with business, labour and the community.

Research and Innovation

Building for Manitoba's successful future requires an ongoing commitment to research and innovation, particularly in our key sectors like manufacturing, health industries, energy and agriculture. Manitoba's research and development spending relative to GDP is fourth-highest among the provinces.

We already boast a strong complement of innovative companies. For example, Manitoba is home to 37 biotechnology companies – one in ten Canadian biotechnology companies has operations in Manitoba.

Important additions to Manitoba's technology infrastructure announced recently include:

- the Industrial Partnership Facility at the National Research Council Institute for Biodiagnostics that will focus on leading-edge medical research, development and commercialization;
- the new \$25 million I. H. Asper Clinical Research Institute that will provide a bridge between cardiovascular care and primary care, research and clinical testing;
- a \$25 million state-of-the-art Functional Foods and Nutraceuticals Research Centre in SMARTpark at the University of Manitoba that will help identify Manitoba crops as candidates for higher value-added processing as functional foods.
- CancerCare Manitoba's new \$3 million Breast Cancer Research and Diagnostic Centre that will solidify Winnipeg's reputation as a centre for advanced medical research.

In last year's Budget, we announced Provincial assistance to the new media industry in Manitoba. Consultations were completed last year, and I am pleased to announce that we will be providing further support to this emerging sector

Additionally, we will broaden the Manitoba Film and Video Production Tax Credit program, which has been

instrumental in developing the film industry in Manitoba over the past five years. New media film and video producers will now be better able to access the film tax credit.

Capital Investment

Our film industry is a good example of how Manitoba companies are successfully competing in the global marketplace.

In addition, witness the success of local firms like Vansco Electronics, which recently received the first annual Canadian Manufacturers and Exporters Excellence Award.

*Crocus Investment Fund and
ENSIS Growth Fund have combined
assets of over \$240 million. About
80 Manitoba companies have
benefited from investments
by these two Funds.*

Major capital investments are planned for Manitoba in 2002.

- J. R. Simplot is investing \$110 million in the first phase of a new potato processing facility in Portage La Prairie.

- Standard Aero Limited is building a \$92 million repair facility designed to service the growing regional jet market.
- Biovail Corporation has announced an \$11 million expansion to its Steinbach plant.
- Maple Leaf Distillers is undertaking a \$6.4 million expansion.
- Air Canada and Manitoba-based Acsion Industries announced a strategic partnership that will create 270 jobs in our aerospace sector.

Our Government acted to ensure that Manitoba remains a leader in bus manufacturing. Working together with the federal government and the City of Winnipeg, we were able to protect jobs and a vital industry at New Flyer and Motor Coach Industries.

Recognizing the importance of access to growth capital, the Province assists the private sector in delivering venture financing to Manitoba companies. Crocus Investment Fund and ENSIS Growth Fund continue to be very popular with the investing public. These two labour-sponsored venture capital companies have combined assets of over \$240 million. About 80 Manitoba companies have benefited from investments by these two Funds.

The Province has also made significant investments in privately managed capital pools. In December 2001, we announced the establishment of the \$45 million Western Life Sciences Venture Fund. This new Fund will focus on one of Manitoba's prime areas of opportunity – the commercial development of health sciences research.

Our Hydro Advantage

Clearly, a major part of our Manitoba advantage is our hydro advantage. Our vast water resources and publicly owned and publicly accountable hydro utility are part of a tremendous legacy passed down to us. Investments in the Limestone Generating Station led to the tremendous growth in Hydro's export revenues.

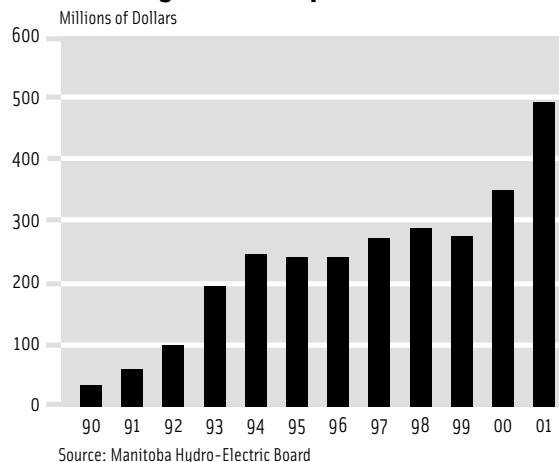
Today, strong exports to the United States allow Manitoba residents and businesses to enjoy the lowest electricity prices in North America, which will continue into the future.

In fact, last year we took the historic step of equalizing rural and northern hydro rates to the same level as Winnipeg.

To date, about half of Manitoba's hydro-electric potential has been developed. Together with Manitoba Hydro, we are working on future projects.

Pending final approval, the Wuskwatim dam project will be constructed in partnership with the Nisichawayasihk Cree Nation (NCN). Apart from ensuring no significant environmental impacts in the project's design, the

Manitoba Hydro U.S. Export Revenues



equity partnership will provide NCN a revenue stream for community and economic development. The NCN will build their own future with new economic tools derived from resources on their traditional lands. There are other projects being developed with First Nations that follow this innovative model.

Another exciting development is the agreement in principle for the sale of Winnipeg Hydro to Manitoba Hydro.

Total Estimated Flood-Proofing Costs¹

| | <u>1999/00</u> | <u>2000/01</u> | <u>2001/02</u> | <u>2002/03</u> |
|---|-----------------|------------------------|-----------------|-----------------|
| | | (Thousands of Dollars) | | |
| Total Budgetary Expenditure | 23,850.0 | 24,752.1 | 22,648.6 | 23,305.2 |
| Total Recoveries from federal and local gov'ts. | (10,341.1) | (11,437.2) | (9,273.9) | (5,758.1) |
| Net Provincial Expenditure | <u>13,508.9</u> | <u>13,314.9</u> | <u>13,374.7</u> | <u>17,547.1</u> |

Note 1: Net of Red River Floodway Renewal and Expansion.

This will:

- guarantee public ownership of Manitoba's power utilities into the future;
- provide a revenue stream for the City of Winnipeg;
- result in operational synergies; and
- augment Winnipeg's revitalization with a new 400,000-sq. ft. downtown office building.

Manitoba Hydro is financially sound. Manitobans will continue to have the lowest hydro rates in North America.

Flood Protection

Manitoba's vast water resources are a valuable asset, but do represent a challenge. Many Manitobans know first-hand the dangers of rising flood waters. Our Government remains strongly committed to new flood protection measures.

Since coming to office, we have improved the gates and entrance to the Red River Floodway, increasing its capacity by seven percent. We are also flood proofing individual homes and businesses outside ring-diked communities.

Over 1,600 projects have been undertaken, at an estimated cost of \$60 million.

We are continuing to make strong investments in flood-proofing programs in Budget 2002.

The three levels of government commissioned a study of the two leading options for further flood protection – a

detention structure in St. Agathe and an expanded Red River Floodway.

After a series of public meetings, the Clean Environment Commission's report to government strongly noted that the public wants to get on with the job of flood protection. This Government is committed, with the support of the Official Opposition, to an expanded Red River Floodway. For 2002/03, \$40 million is provided for an expanded Floodway – \$20 million from the operating budget and \$20 million in capital authority.

Highways

Solid transportation infrastructure is essential for economic growth and raising our collective standard of living. Manitoba is home to many communities with unique and important transportation requirements. Transportation infrastructure must be there when it's needed.

*For the first time, we are announcing
a capital commitment of
\$600 million in highway construction
expenditure over five years.*

In 2001, after committing no resources to roads for five years, the federal government finally put funds toward highway construction in Manitoba. But, federal funding represents less than five percent of the money

they take out in gas taxes every year. Manitoba needs a stronger federal commitment to rebuild our highway system.

We need a long-term strategy to address our transportation needs. We will also be consulting with Manitobans on the long-term needs of our transportation system.

But, we are not waiting for the results of this process to act. In Budget 2002, we are increasing the highways construction budget by almost 16 percent to \$120 million.

For the first time, we are announcing a capital commitment of \$600 million in highway construction expenditure over five years.

RURAL COMMUNITIES

Our Government assists communities across the province to build for the next generation while meeting the challenges of today.

Better educational opportunities, lower hydro rates, reduced farm tax assessment rates, and improved drainage and watershed management have created a greater sense of hope and optimism in rural Manitoba.

We are taking action to increase support to rural Manitoba. One important tool is the Bridging Generations Initiative, an innovative land transfer program to help ease the transfer of family farms from one generation to the next.

To help Manitoba farmers take advantage of new crops or products, \$42.4 million was allocated last year for 38 new diversification projects through The Manitoba Agricultural Credit Corporation's Diversification Loan Guarantee program. Another \$7 million was put back in farmers' pockets by reducing the portion of farm property assessment from 30 to 26 percent. In addition, Manitoba Crop Insurance paid out \$12.9 million last year under the Excessive Moisture Insurance program first introduced in 2000/01.

Our commitment of \$6.3 million to the Prairie Grain Roads program has been a major factor in the improvement of farm infrastructure. We are also enhancing Manitoba's value-added processing capacity with a further investment in the Food Development Centre in Portage la Prairie.

*The Province, in partnership with
the University of Manitoba and
Western Economic Diversification, is
committed to the establishment of
a \$25 million state-of-the-art
Functional Foods and
Nutraceuticals Research Centre.*

The Province, in partnership with the University of Manitoba and Western Economic Diversification, is

committed to the establishment of a \$25 million state-of-the-art Functional Foods and Nutraceuticals Research Centre to be located in SMARTpark at U of M. This facility will be beneficial in identifying opportunities for Manitoba products to be processed into higher value-added functional foods.

Once again, our Government is committed to working with producers to offer safety net programs that better meet their needs. Budget 2002 ensures farmers have the tools to make farm management decisions, with better crop insurance coverage and innovative pilot programs.

The Rural Economic Development Initiative (REDI), in co-operation with Community Development Corporations, play an essential role in helping rural communities and organizations. REDI provides funding to create business opportunities for youth, support industry and develop infrastructure.

Through financial incentives and efforts to gain broader participation, most Manitoba municipalities are now involved in planning districts. Partnerships between municipalities and our Government to ensure sustainable management of water resources have been successful. The land area managed by organized conservation districts has grown by 40 percent since 1999.

Today, we are providing more resources for drainage projects in Manitoba communities, and support for livestock management initiatives that address water safety. Drainage is receiving \$10.1 million in this Budget, up \$1.7 million in the past two years.

Mr. Speaker, we are helping communities to meet the challenges of today, while building their social and economic infrastructure for the future.

URBAN INITIATIVES

Our urban centres are being transformed by a sustained period of growth and rejuvenation.

For example, through targeted investments and partnerships between the private sector and all levels of government, Winnipeg's position as a viable place for business investment has been strengthened.

A number of major projects are currently under way:

- the new downtown Red River College campus;
- the Millennium Library;
- Waterfront Drive in the Exchange District;
- the True North Entertainment complex;
- the Winnipeg Convention Centre; and
- upgrading of Main Street and the Provencher Bridge.

In addition to Neighbourhoods Alive! and the Winnipeg Housing and Homelessness Initiative, we have recently announced the \$14 million Building Communities program, in partnership with the City of Winnipeg. It will fund a range of capital projects including improvements to community facilities and municipal infrastructure, the upgrading of housing and land acquisition in Winnipeg.

With the full participation of the City of Winnipeg, we have made a commitment to renewing the legislative framework guiding the City's operations.

We are already working with the capital region governments on mosquito larvaciding.

Brandon and Thompson are realizing tangible benefits through local neighbourhood renewal corporations, supported through Neighbourhoods Alive!. In February we announced an investment of \$700,000 over five years toward community economic development, the revitalization of older neighbourhoods and community partnerships in these two cities.

Brandon has also received strong support in other areas:

- a \$58 million capital construction project for the Brandon Regional Health Centre;
- a three-year, \$250,000 per year operating and targeted capital commitment to the Keystone Centre;
- a \$100,000 grant to Brandon University's Regional Development Institute;
- significant resources for the conversion, renovation and new construction of over 200 housing units for low- and moderate-income families; and
- new opportunities for children and youth through support for Lighthouses, a downtown day care and increased spaces at Assiniboine Community College.

Budget 2002 will maintain the level of funding available through the Provincial Municipal Tax Sharing program, despite the uncertainties of the federal error and a significant decrease in Corporate Income Tax revenue.

Mr. Speaker, vibrant urban centres attract investment and opportunity for all Manitobans. Our Government will continue to build the kind of partnerships with local

governments and the private sector that have proven successful in the past.

NORTHERN AND ABORIGINAL COMMUNITIES

For many years we have looked to Northern Manitoba and acknowledged the tremendous untapped possibilities – such as enhanced eco-tourism initiatives – that will attract more adventure travellers and tourists to our province's northern region.

We have also seen the many challenges faced by Northerners, including transportation, sewage and water treatment and access to vital services.

Last fall, we launched the Northern Development Strategy – a long-term plan encompassing housing, health, transportation, employment and training, and economic development. Budget 2002 increases support for this Strategy.

Important strides have been made in the area of Aboriginal justice. The Report of the Aboriginal Justice Implementation Commission (AJIC), received last year, recognizes that Aboriginal justice is not only about the criminal justice system, but involves broader issues such as child welfare, education, employment and stronger communities. We are developing both immediate and long-term strategies for action in these areas, and there will be a comprehensive formal response to the AJIC recommendations in the near future.

Historic agreements have been signed with First Nations and Métis peoples to co-manage local

resources, including forestry and fishing. We have also announced upgrades to water and sewage treatment facilities in several communities.

We have been working collaboratively to develop a Northern Housing Strategy, and will soon see the construction of an energy-efficient demonstration house in Thompson.

Northern Manitoba will benefit from \$2 million in federal/provincial funding announced in November for mining exploration to evaluate the potential for precious metals and rare earth elements.

Today, I am pleased to announce a new 10 percent Mineral Exploration Tax Credit. This initiative supports exploration for new mineral deposits that could lead to additional mining activity and jobs in rural and northern Manitoba.

We will continue to work with Aboriginal and northern communities to seize the opportunities for the future.

ENVIRONMENTAL STEWARDSHIP

A necessary component of economic development is environmental stewardship. It is wholly appropriate that as we continue to support a healthier environment through Budget 2002, we do so on Earth Day.

Our economic strategy is sustainable because it respects the environment. We have taken a number of steps to address this very important issue, like converting the Selkirk Hydro plant from coal to natural gas. We are also acting on the recommendations in the Manitoba Climate Change Task Force Report.

We launched the Energy Development Initiative to promote opportunities for hydro – a utility that has displaced 10 million tonnes of greenhouse gas emissions per year. This program puts Manitoba at the forefront of renewable energy resource development, including wind, biomass, geothermal and hydrogen.

Manitoba is also home to a growing ethanol industry. Like other jurisdictions across North America, we have come to recognize the benefits of increased ethanol use for agricultural diversification and meeting our climate change objectives.

Minnesota, our neighbour to the south, has already mandated a 10 percent blend in all gasoline sold in the state. Our Government believes that a similar mandate is desirable and achievable in Manitoba. In months to come, we will actively consult Manitobans to determine the most effective way of reaching this goal and maximizing benefits to Manitobans.

Sustaining natural areas for carbon storage is also a key part of our Government's climate change plan. Our Environmentally Sensitive Areas Tax Credit will better enable us to protect the land around creeks and riverbanks, and our recently announced sustainable forests policy will better enable us to protect critical forest areas.

We have placed a high priority on drinking water safety in Budget 2002, including allocating new resources to monitoring, testing and support for local infrastructure.

We are proud of our sustainable development record. We will build on past success by initiating programs

designed to enhance our leadership position while protecting our resources.

FISCAL OUTLOOK AND BUDGET BALANCE

Despite Manitoba's relatively strong economic performance in 2001, and forecasts to be among the top five provinces in 2002, two dark clouds shadow our fiscal horizon. Corporate Income Tax revenue dropped this year, and there will be ongoing effects from the federal income tax payments error.

Federal estimates indicate that the national economic slowdown resulted in lower than expected corporate

income taxes. In Manitoba, Corporate Income Tax revenue will decline by 60 percent, or almost \$230 million from last year's estimate.

This Budget calls for spending increases of 2.5 percent overall — the lowest budget-to-budget increase in five years.

A second challenge is the federal government's error regarding the mutual fund trusts income tax.

Medium-Term Fiscal Framework

| | <u>2001/02¹</u> | <u>2002/03</u> | <u>2003/04</u> | <u>2004/05</u> | <u>2005/06</u> |
|--|----------------------------|----------------|-----------------------|----------------|----------------|
| | | | (Millions of Dollars) | | |
| Revenue | <u>6,900</u> | <u>6,941</u> | <u>7,069</u> | <u>7,246</u> | <u>7,516</u> |
| Expenditure | | | | | |
| Program Expenditure | <u>6,388</u> | <u>6,560</u> | <u>6,691</u> | <u>6,825</u> | <u>6,961</u> |
| Public Debt Costs | <u>391</u> | <u>368</u> | <u>368</u> | <u>368</u> | <u>368</u> |
| Total | <u>6,779</u> | <u>6,928</u> | <u>7,059</u> | <u>7,193</u> | <u>7,329</u> |
| Net Revenue | 121 | 13 | 10 | 53 | 187 |
| Interfund Transfers | | | | | |
| Debt/Pension Repayment | (96) | (96) | (96) | (96) | (121) |
| Fiscal Stabilization Fund | <u>0</u> | <u>93</u> | <u>96</u> | <u>53</u> | <u>(56)</u> |
| Balance Under Balanced Budget Legislation | <u>25</u> | <u>10</u> | <u>10</u> | <u>10</u> | <u>10</u> |

The Medium-Term Fiscal Framework reflects current forecasts and assumptions. Should future circumstances depart from these, Budget decisions will reflect these changes.

Note 1: 3Q-Forecast.

Comparative Statement of Budgetary Revenue, Expenditure, Transfers and Balance

2002/03 and 2001/02

| | 2002/03 Budget | 2001/02 3Q-Forecast ¹ | 2001/02 Budget Adjusted ¹ | Increase/(Decrease) from 3Q-Forecast to 2002/03 Budget | | Increase/(Decrease) from 2001/02 Budget to 2002/03 Budget | |
|--|--------------------------|-------------------------------------|--|--|---------------|---|------------|
| | (Millions of Dollars) | | | (Millions of Dollars) | % | (Millions of Dollars) | % |
| Revenue | | | | | | | |
| Own-Source | 4,579 | 4,690 | 4,676 | (111) | (2.4) | (97) | (2.1) |
| Federal Transfers | 2,362 | 2,210 | 2,127 | 152 | 6.9 | 235 | 11.0 |
| Total Revenue | <u>6,941</u> | <u>6,900</u> | <u>6,803</u> | <u>41</u> | <u>0.6</u> | <u>138</u> | <u>2.0</u> |
| Expenditure | | | | | | | |
| Program | 6,560 | 6,388 | 6,318 | 172 | 2.7 | 242 | 3.8 |
| Debt Servicing | 368 | 391 | 439 | (23) | (5.9) | (71) | (16.2) |
| Total Expenditure | <u>6,928</u> | <u>6,779</u> | <u>6,757</u> | <u>149</u> | <u>2.2</u> | <u>171</u> | <u>2.5</u> |
| Net Revenue | 13 | 121 | 46 | (108) | (89.3) | (33) | (71.7) |
| Interfund Transfers | | | | | | | |
| Debt/Pension Repayment | (96) | (96) | (96) | 0 | 0.0 | 0 | 0.0 |
| Fiscal Stabilization Fund | 93 | 0 | 60 | 93 | n/a | 33 | 55.0 |
| Balance Under Balanced Budget Legislation | <u>10</u> | <u>25</u> | <u>10</u> | <u>(15)</u> | <u>(60.0)</u> | <u>0</u> | <u>0.0</u> |

Note 1: The 2001/02 information has been adjusted to be consistent with the 2002/03 Estimates structure.
The 2001 forecast is based on the Third Quarter Financial Report.

Based on a strong precedent and the assurances of the federal Finance Minister, I am confident that a satisfactory and equitable solution will be found. This Budget makes prudent assumptions in the realization of an Equalization offset for each year a mutual fund trust payment error is deducted or recovered.

Further steps are necessary to ensure we meet the priorities of Manitobans, balance the budget, and

address the challenges posed by these revenue reductions.

- This Budget calls for spending increases of 2.5 percent overall – the lowest budget-to-budget increase in five years.
- Only seven departments will receive a spending increase in this year's estimates.

- Departments were directed to cut discretionary spending.
- Overtime is to be reduced in all departments.
- This Budget targets a six percent vacancy rate across Government, up from last year's four percent.
- Public debt costs have been reduced a further \$20 million from last year.

While corporate income taxes are down in the short-term, one Manitoba corporation – which pays no income tax – is making large profits. As a result of increased U.S. export demand, Manitoba Hydro is

projected to make in excess of \$400 million in profits between 2001/02 and 2003/04.

Because of the challenges we face as a result of the federal error, Manitoba Hydro will be asked to make special export profits payments in the amount of \$288 million. These payments will ensure Manitoba families do not bear the brunt of the federal error and reduced Corporate Income Tax revenue. These payments will bridge the shortfall until the federal error is fully absorbed and Corporate Income Tax revenue recovers.

In 2001/02, \$150 million in Hydro export profit revenue eliminates the need for a Fiscal Stabilization Fund

Personal Tax Savings Since 1999

Personal Income Taxes, Education Property Tax Credits, Education Support Levy

| | 2000 | Implemented in | | | Cumulative Annual Total |
|-------------------------------------|-----------------------|----------------|------------|------------|-------------------------|
| | | 2001 | 2002 | 2003 | |
| | (Millions of Dollars) | | | | (Millions of Dollars) |
| Income Tax Reductions | | | | | |
| 2000 Budget | 9 | 68 | 34 | | 111 |
| 2001 Budget | | 29 | 7 | 18 | 54 |
| 2002 Budget | | | 15 | | 15 |
| Total | | | | | 181 |
| EPTC Increases; ESL Decrease | | | | | |
| 2000 Budget | 26 | | | | 26 |
| 2001 Budget | | 27 | | | 27 |
| 2002 Budget | | | 10 | | 10 |
| Total | | | | | 63 |
| Annual Totals | 35 | 124 | 67 | 18 | |
| Cumulative Annual Totals | 35 | 159 | 226 | 244 | 244 |

(FSF) draw. In 2002/03, a further \$75 million in Hydro export profit revenue is budgeted. A further \$63 million is budgeted for 2003/04. At the beginning of 2002/03, the FSF will have \$359 million available to help address future uncertainties.

Over the short term, these payments will approximately equal 60 percent of the total U.S. export sales by Manitoba Hydro for last year alone.

We are also announcing some tax adjustments to improve budgetary revenue. Administrative sales tax changes and a change in the application of sales tax on mechanical and electrical contracts will raise an additional \$10.4 million. Together with all of the other changes announced today, budgetary revenue for 2002/03 totals just over \$6.9 billion – less than one percent more than 2001/02 actuals.

In order to ensure a balance under balanced budget legislation, a \$93 million draw from the Fiscal Stabilization Fund is required. This will be the first time in three years that a draw has been required. It will be significantly lower than the draws taken by the previous administration in 1998/99 and 1999/2000.

We project a \$25 million positive balance for 2001/02, and a \$10 million positive balance in each of the following four years. Our Medium-Term Fiscal Forecast indicates that by 2005/06, the process of replenishing the Fiscal Stabilization Fund will begin. This will occur, not from the sale of our Province's assets as done by the previous administration, but from prudent and sustainable decisions on revenue and expenditure.

Transparency and Accountability

Today's Budget devotes \$96 million, for the third consecutive year, to debt retirement. These funds help to meet our goal of eliminating the General Purpose Debt and funding the province's long-term pension liability. In 2001/02, \$75 million of our \$96 million debt retirement payment was allocated for pension liability. This allocation saves Manitobans \$51 million over the next 28 years.

Over 40 years ago, the Manitoba Government decided to stop funding the pensions of civil servants and teachers. By 1990, pension liability had grown to \$1.2 billion. In 1999, pension liability was \$2.7 billion. Left unattended, this pension obligation would grow to \$10.6 billion by 2035.

*Today's Budget devotes \$96 million,
for the third consecutive year,
to debt retirement.*

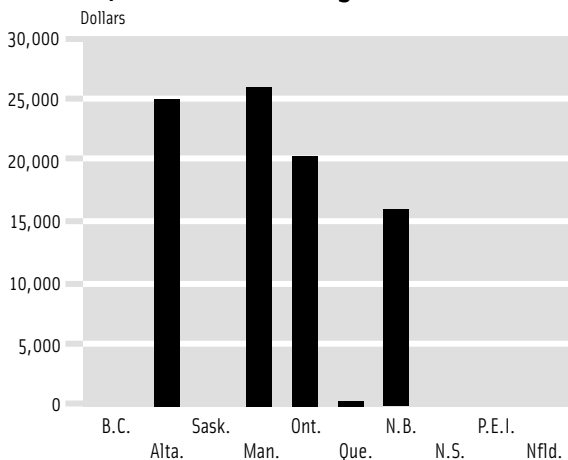
In 2000, we introduced the first plan to reduce our overall pension liability. I am pleased to announce that for the first time in 40 years, effective October 1, 2002, the full pension costs for each new employee will be the responsibility of the hiring department or Government agency. As a result, the outstanding pension liability of the Province will be fully funded by the year 2029.

Personal Taxes

Two major reductions in Personal Income Tax came into effect at the beginning of this year: the middle-bracket tax rate dropped from 16.2 percent to 15.4 percent, and the income threshold between the middle and top brackets rose from \$61,089 to \$65,000.

I am pleased to announce that this Budget increases the value of the personal non-refundable tax credit amounts by three percent. This will save Manitobans a further \$15.3 million per year. It will also remove 5,400 lower-income Manitobans from the tax rolls. The changes we have delivered in our first three Budgets remove a total of 24,000 Manitobans from the tax rolls, and deliver average Personal Income Tax savings of 11.5 percent.

Cumulative Provincial Income Tax Savings for a Small Firm with Annual Taxable Income of \$400,000 - 2002 through 2005



Source: Manitoba Finance

The Education Property Tax Credit reduces the impact of school board property taxes to most homeowners and renters by \$400 – a \$150 increase since 1999. We are also cutting property taxes directly. We recently announced a 10 percent cut to the Education Support Levy (ESL), saving Manitobans another \$10 million.

I am pleased to confirm our plans to phase out the residential ESL over the next five years. Under this plan, homeowners will save almost \$100 million in property taxes, and Manitobans will pay one less property tax.

We will continue to work with other stakeholders and the public to make property taxes and tax credits more transparent and accountable.

I am pleased to confirm our plans to phase out the residential ESL over the next five years.

Including the changes announced today, our Government's first three Budgets deliver significant but sustainable relief on personal income and property taxes totaling \$244 million per year.

In response to requests from the business community, the Manitoba Equity Tax Credit is extended for three more years.

Business Income Taxes

Our first two Budgets significantly reduced corporation income taxes on small businesses, and brought in the first reduction in general corporation income taxes since the Second World War. On January 1 of this year, the amount of taxable income eligible for the small business income tax rate rose from \$200,000 to \$300,000. To keep Manitoba's small business thriving, this Budget commits to increase the threshold to \$400,000 in 2005. This increase will be phased in, starting with an increase to \$320,000 next January 1.

Since our Government came to office, the small business tax rate has fallen from eight percent to the current five percent. This lower rate, together with the increasing threshold, adds up to a major improvement in tax competitiveness for small business in Manitoba.

CONCLUSION

We are working hard to address the top priorities of Manitobans:

- quality public health care;
- new education opportunities and better schools;
- stronger families and safer communities;
- economic development and jobs;
- keeping the books balanced; and
- keeping Government affordable.

We are meeting today's challenges. We are determined to keep building for Manitoba's future. There are many

exciting developments going on throughout the province – in Manitoba's North, in rural areas, and in downtown Winnipeg and Brandon. Manitobans from all walks of life recognize the hurdles we face. Still, their optimism is real and infectious.

In our first three Budgets we invested \$500 million more, or 2.5% per year, to meet the needs of health, education, children and communities. At the same time we have provided \$244 million in personal tax reductions and committed \$288 million towards operating debt reduction.

This is a great time to be a Manitoban. We have shown we can address adversity and still thrive, keeping focussed on our long-term goals.

This is a great time to be a Manitoban. We have shown we can address adversity and still thrive, keeping focussed on our long-term goals.

In this spirit, I am proud to present the 2002 Manitoba Budget. It is fair, balanced and future-oriented. It continues our course for a bright and stable future for Manitoba families. We are meeting today's challenges and building for Manitoba's future.

Thank you, Mr. Speaker.